

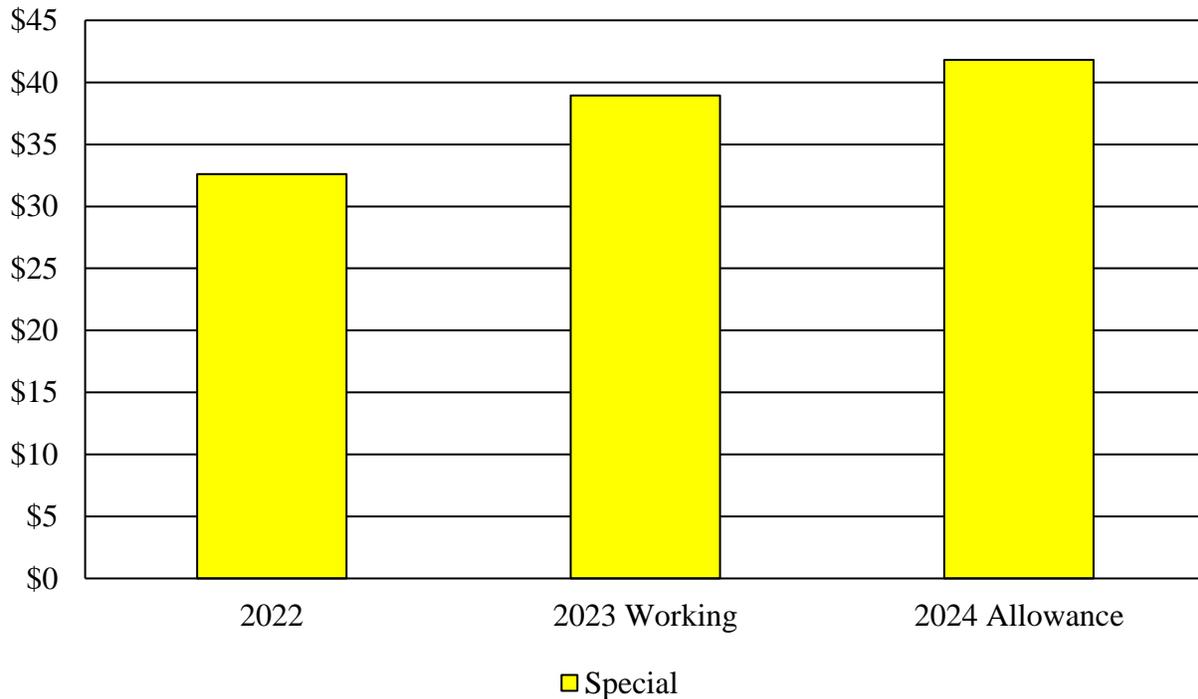
D80Z01
Maryland Insurance Administration

Program Description

The Maryland Insurance Administration (MIA) is responsible for licensing and regulating insurers, insurance agents, and brokers who conduct business in the State and for monitoring the financial solvency of licensed insurers. MIA is also responsible for collecting taxes levied on all premiums collected by insurance companies within the State. It operates under the authority of the Insurance Article, Title 2, of the Annotated Code of Maryland. MIA is a special-funded State agency supported entirely through fees and assessments on the insurance industry.

Operating Budget Summary

Fiscal 2024 Budget Increases \$2.9 Million, or 7.4%, to \$41.8 Million
(\$ in Millions)

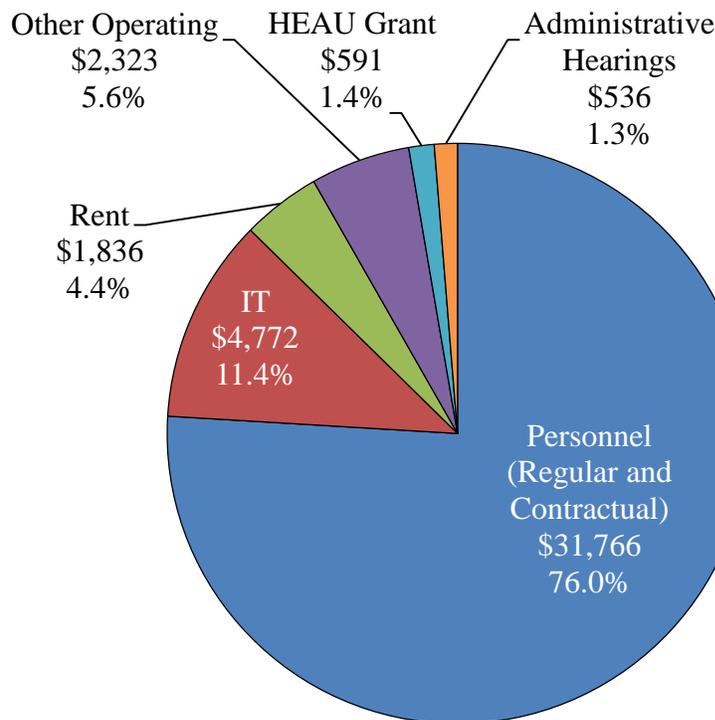


Note: The fiscal 2023 working appropriation includes deficiency appropriations including this agency’s share of a deficiency appropriation budgeted in the Statewide Account within the Department of Budget and Management (DBM). Fiscal 2024 salary enhancements are budgeted in the Statewide Account within DBM.

Fiscal 2024 Overview of Agency Spending

The fiscal 2024 allowance of MIA totals approximately \$41.8 million. As shown in **Exhibit 1**, the largest portion of the allowance is dedicated to personnel at \$31.8 million, or 76%, of the budget. Information technology costs total 11.4% of the budget, which includes the renewal of the effort to develop a new Insurance Tracking System (ITS) for the agency, a project stalled since spring 2022, as well as an agencywide upgrade of digital infrastructure.

Exhibit 1
Overview of Agency Spending
Fiscal 2024 Allowance
(\$ in Thousands)



HEAU: Health Education and Advocacy Unit in the Office of the Attorney General, Division of Consumer Protection
IT: information technology

Note: The fiscal 2024 allowance does not reflect salary enhancements that are budgeted in the Statewide Account within the Department of Budget and Management.

Source: Governor’s Fiscal 2024 Budget Books; Department of Budget and Management

Proposed Budget Change

As shown in **Exhibit 2**, the fiscal 2024 allowance increased by approximately \$2.9 million, or 7.4%, over the fiscal 2023 appropriation after adjusting for the agency’s share of the statewide deficiency for the 4.5% cost-of-living adjustment provided in November 2022. The largest increase (\$1.1 million) supports the ITS project discussed in Key Observation 2. Other technology upgrade expenses are responsible for additional substantial increases.

**Exhibit 2
Proposed Budget
Maryland Insurance Administration
(\$ in Thousands)**

How Much It Grows:	Special Fund	Total
Fiscal 2022 Actual	\$32,610	\$32,610
Fiscal 2023 Working Appropriation	38,946	38,946
Fiscal 2024 Allowance	<u>41,824</u>	<u>41,824</u>
Fiscal 2023-2024 Amount Change	\$2,878	\$2,878
Fiscal 2023-2024 Percent Change	7.4%	7.4%

Where It Goes:	<u>Change</u>
Personnel Expenses	
Regular employee and retiree health insurance	\$600
Annualization of November 2022 4.5% COLA	373
Turnover adjustments	53
Unemployment compensation	-2
Social Security contributions	-5
Workers’ compensation	-52
Employees’ retirement system.....	-93
Regular earnings	-792
Other Changes	
Insurance Tracking System MITDP	1,055
Replacement of outdated digital infrastructure, including desktop displays	434
Contractual personnel in the internship program and accounting team, including 4.5% COLA	234
SIEM/SOAR cloud-based security system	200
Computer maintenance contracts based on recent experience.....	171
Laptop replacements	150

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Where It Goes:	<u>Change</u>
Assistance to the associate commissioner and four law clerks.....	137
Contractual services to perform the review of network access plans and MHPAEA reports.....	125
Increased travel expenses for in-state routine operations and both in-state and out-of-state conferences	118
Veeam client backup software	100
Threat intelligence service subscription.....	100
Rent.....	93
Vehicle purchases	69
Other expenses	40
Administrative hearings	-231
Total	\$2,878

COLA: cost-of-living adjustment
MHPAEA: Mental Health Parity and Addiction Equity Act of 2008
MITDP: Major Information Technology Development Project
SIEM: Security Information and Event Management
SOAR: Security Orchestration, Automation, and Response

Note: The fiscal 2023 working appropriation includes deficiency appropriations including this agency’s share of a deficiency appropriation budgeted in the Statewide Account within the Department of Budget and Management (DBM). Fiscal 2024 salary enhancements are budgeted in the Statewide Account within DBM.

Personnel Data

	<u>FY 22</u>	<u>FY 23</u>	<u>FY 24</u>	<u>FY 23-24</u>
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>
Regular Positions	259.00	259.00	259.00	0.00
Contractual FTEs	<u>12.00</u>	<u>19.60</u>	<u>22.10</u>	<u>2.50</u>
Total Personnel	271.00	278.60	281.10	2.50

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	15.88	6.13%
Positions and Percentage Vacant as of 12/31/22	32.00	12.36%
Vacancies Above Turnover	16.12	

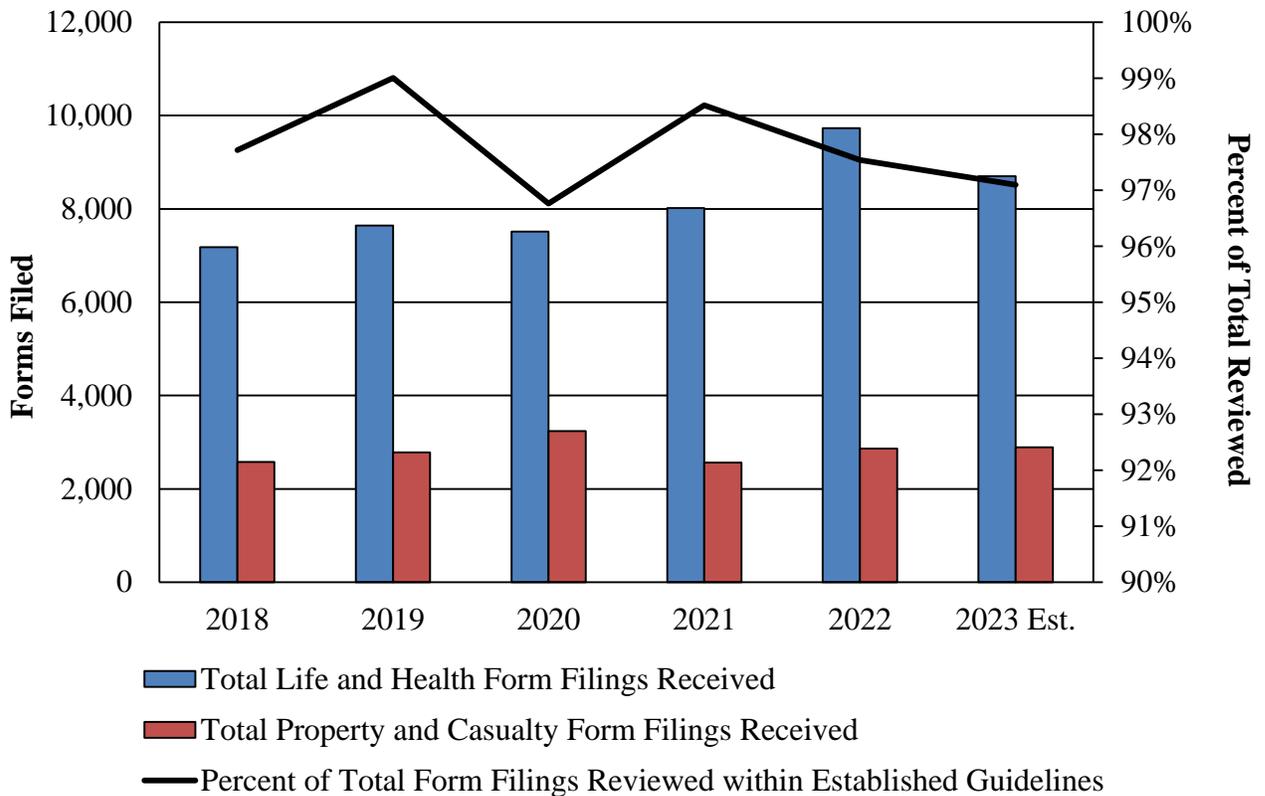
- At 32 vacancies as of December 31, 2022, MIA has 16.12 vacancies more than necessary to meet the turnover rate. MIA reports ongoing difficulties with employee retention, believed to be caused by public-private salary differentials. Increased contractual personnel costs reflect higher salaries in an effort to compete with the private market for job seekers with education or experience in the insurance industry. **MIA should comment on which operations see the highest staffing struggles and what the agency is doing to recruit and retain staff.**
- The fiscal 2024 allowance increases the contractual full-time equivalents for MIA by 2.5, which includes 0.5 operational assistant to the Associate Commissioner of Finance Regulation, 1 law clerk, and 1 office clerk.

Key Observations

1. Form Filings

MIA conducts a review of every insurance policy and contract to ensure that all the legal requirements for the policy and contract are met. MIA also reviews and approves rates for most life and health and property and casualty insurance products. As shown in **Exhibit 3**, form filings increased by approximately 21.3% in life and health between fiscal 2021 and 2022 and 11.6% in property and casualty. Despite the increase in filings, the percent of total form filings reviewed within the established guidelines remained relatively constant.

Exhibit 3
Form Filings Received and Reviewed
 Fiscal 2018-2023 Est.



Source: Department of Budget and Management; Maryland Insurance Administration

2. Insurance Tracking System Development Project

MIA has identified the need to replace the current enterprise system that was custom built for the agency in the 1990s for the following business functions: company licensing; market conduct case tracking; and case tracking for hearings and orders. The new system will also include a case tracking capability for MIA fraud investigations. The new system will leverage the following modern technologies: document management; workflow; collaboration; data analysis; and data reporting.

The current system leads to several challenges for agency operations including:

- the need to manually enter company demographic data by the agency rather than allowing insurance companies to maintain their contact and address information electronically;
- the lack of ability to store or manage documents submitted by insurance companies as part of the licensing process. Company documents are submitted to MIA in hard copy or via email and then scanned and stored electronically on MIA network file shares without a link or connection to the company data stored in the enterprise system. In addition, MIA currently prints hard copy licenses and mails them to insurance companies rather than issuing licenses electronically;
- difficulties in querying the legacy Sybase database for market conduct exams, orders, and hearings; and
- the lack of case tracking functionality to support fraud investigations, causing the Fraud Unit to rely on Excel spreadsheets to store all data associated with fraud cases.

A contract was awarded to MERP Systems, Inc. and approved by the Board of Public Works (BPW) on October 6, 2021. The contracted vendor subsequently defaulted in March 2022, stalling all progress on the project until MIA could ultimately work with the Department of Information Technology (DoIT) to procure a new contract. MIA reports that a new contractor is expected to be selected in February 2023 with project development to begin again in March 2023.

In fiscal 2021, this project received an appropriation of \$2 million. As of October 2022, MIA reported that approximately \$86,000 had been spent on project development but, at that time, the agency could not provide a new estimated total project cost or spending timeline. The fiscal 2024 allowance includes \$1.2 million for this project, an increase from \$160,000 in fiscal 2023. However, at this time, no documentation to support the fiscal 2024 costs or a revision in the timeline has been provided. **The Department of Legislative Services recommends adopting committee narrative requesting a report on the spending and progress history of the ITS project and how MIA intends to track and report project spending moving forward.**

Operating Budget Recommended Actions

1. Adopt the following narrative:

Insurance Tracking System (ITS) Project History and Future Management Plans:

With significant new funding for the ITS project provided in the fiscal 2024 allowance, the committees are interested in better understanding the steps that the agency will take to prevent future delays in the project, similar to the defaulting of the prior contractor. The committees are also concerned that funding has been provided with no updated information on the project timeline and plans for the project. The committees request that the Maryland Insurance Administration (MIA) submit a report summarizing and including:

- the reasons for contractor default in March 2022 and how MIA will prevent contractor default on this project in the future;
- a detailed project spending history through fiscal 2023, or why this is not possible; and
- how MIA plans to track and report spending on this project through the completion of the project.

Information Request	Author	Due Date
ITS project history and future management plans	MIA	July 31, 2023

Appendix 1
Insurance Tracking System
Major Information Technology Project
Maryland Insurance Administration

Additional discussion of this project can be found in Key Observation 2 of this analysis.

New/Ongoing: Ongoing								
Start Date: 5/1/2020			Est. Completion Date: Fiscal 2026					
Implementation Strategy: Agile								
(\$ in Millions)	Prior Year	2022	2023	2024	2025	2026	Remainder	Total
SF	\$2.000	\$0.118	\$0.160	\$1.215	\$0.380	\$0.000	\$0.000	\$3.873
Total	\$2.000	\$0.118	\$0.160	\$1.215	\$0.380	\$0.000	\$0.000	\$3.873

- **Project Summary:** MIA has identified the need to replace the current enterprise system that was custom built for the agency in the 1990s for the following business functions: company licensing; market conduct case tracking; and case tracking for hearings and orders. The new system will also include a case tracking capability for MIA fraud investigations. The new system will leverage the following modern technologies: document management; workflow; collaboration; data analysis; and data reporting.
- **Need:** The current system is significantly paper and Excel based. This increases the likelihood of error and the time spent in data analysis and communications.
- **Observations and Milestones:** The contract was awarded to MERP Systems, Inc. and approved by BPW on October 6, 2021. The contracted vendor defaulted in March 2022, stalling all progress on the project until MIA could ultimately work with DoIT to procure a new contract.
- **Changes:** MIA reports that a new contractor is due to be selected by February 10, 2023, to begin project development again in March 2023. Although funding has been provided in the fiscal 2024 allowance totaling \$1.2 million, no information has been provided on the new timeline for the project.

**Appendix 3
Object/Fund Difference Report
Maryland Insurance Administration**

<u>Object/Fund</u>	<u>FY 22 Actual</u>	<u>FY 23 Working Appropriation</u>	<u>FY 24 Allowance</u>	<u>FY 23 - FY 24 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	259.00	259.00	259.00	0.00	0%
02 Contractual	12.00	19.60	22.10	2.50	12.8%
Total Positions	271.00	278.60	281.10	2.50	0.9%
Objects					
01 Salaries and Wages	\$ 26,036,806	\$ 29,830,736	\$ 30,659,167	\$ 828,431	2.8%
02 Technical and Special Fees	654,966	969,834	1,107,045	137,211	14.1%
03 Communication	203,519	264,951	250,368	-14,583	-5.5%
04 Travel	67,182	264,463	382,578	118,115	44.7%
07 Motor Vehicles	153,499	189,429	258,327	68,898	36.4%
08 Contractual Services	2,871,646	3,922,527	5,641,638	1,719,111	43.8%
09 Supplies and Materials	164,684	263,994	270,602	6,608	2.5%
10 Equipment – Replacement	102,367	41,618	191,618	150,000	360.4%
11 Equipment – Additional	149,225	1,650	435,650	434,000	26303.0%
12 Grants, Subsidies, and Contributions	622,487	590,714	590,714	0	0%
13 Fixed Charges	1,583,794	1,834,518	2,036,703	202,185	11.0%
Total Objects	\$ 32,610,175	\$ 38,174,434	\$ 41,824,410	\$ 3,649,976	9.6%
Funds					
03 Special Fund	\$ 32,610,175	\$ 38,174,434	\$ 41,824,410	\$ 3,649,976	9.6%
Total Funds	\$ 32,610,175	\$ 38,174,434	\$ 41,824,410	\$ 3,649,976	9.6%

Note: The fiscal 2023 appropriation does not include deficiencies. The fiscal 2024 allowance does not include salary adjustments budgeted within the Department of Budget and Management.